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No. 2093

TURKEY: PERFORMANCE, PROSPECTS OF ECONOMY SCRUTINIZED

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WEST EUROPE REPORT

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Istanbul CUMHURIYET in Turkish 1-8 Dec 82

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Economic Indicators Up

Istanbul CUMHURIYET in Turkish 1 Dec 82 pp 1, 9

[Article by Osman Ulagay, Meral Tamer]

[Text] Some people will tell you all is sunny and bright and that our economy is looking good. Turkey is one of those rare countries with the inflation rate decelerating on the one hand and the growth rate rising on the other. Foreign observers, agog at this success of Turkey's in expanding its exports by around 60 percent last year and 30 percent this year in a climate of regressive world trade, are citing Turkey as an example for the world. If the effects of "traffic accidents" such as the Kastelli brokerage incident are dispelled and financing problems overcome, there is no reason why our economy should not be looking to a bright future.

Others, however, will say the situation is just the reverse. It will be difficult to repeat in the years ahead the production increases and considerable growth rates resulting from the restoration of law and order in the country and certain accidental factors. It is doubtful that the growth rate figures are accurate anyway. Furthermore, export expansion is steadily losing momentum and there is nothing encouraging from this standpoint for the immediate future. The slowdown of inflation shows all the signs of re-escalation with the price hikes resulting from depreciation of the lira. The crisis in the financing sector is not going to be overcome with this kind of temporary measures, but is impossible to resolve without radical reorganization of this sector. Unless there are basic changes in the present policies, it is inevitable that the economy will run aground in the near future.

Of course there are also more moderate approaches between these two extremes, one that combine pride and criticism. But beyond all these approaches, comments and evaluations, there are the data and indicators showing where the economy is going.

To understand where the economy is going, it is perhaps necessary to look at these indicators first, before going into the different interpretations.

--National Income

The most important figures for following the course of development of a country's economy are undoubtedly the national income data. According to the latest national income estimates announced last week by the State Institute of Statistics [SIS] gross national product (GNP)--considered the criterion of national income--will rise 4.4 percent in 1982 at fixed producer prices. Growth in the agricultural sector will be 6.5 percent, a record for recent years. The remarkable growth rate of 9.1 percent in the industrial sector last year will fall back significantly to 5.2 percent. The construction sector will, as it did last year, have a growth rate of around .5 percent.

Per capita national income in Turkey, thanks to these developments, will reach 187,000 liras at current prices in 1982. This is a 29-percent increase over last year. When one considers the effect of higher prices, however, it leaves only a 2.3 percent increase. Figuring the dollar-lira exchange rate at an average of 110.24 liras in 1981 and 158.40 liras in 1982, our per capita national income will not rise in dollars in 1982, but on the contrary will drop from $1,311 to $1,180. In that case, it would be a little difficult to say that the Turkish people have become richer in the true sense in 1982.

In sum, 1982 will be a year in which industrial growth slowed, the construction slump continued and booming agriculture played the saving role...if SIS data are accurate, of course.

--Exports-Imports-Worker Remittances

Our exports, according to January-September data, registered an increase in excess of 61 percent in 1981, but were able to grow only 27 percent in the same period this year. Moreover, this growth rate has slowed further in recent months, in which case $6 billion in exports seems illusory and it looks as though we will have to be content with a figure between $5.5 billion and $5.6 billion. Imports, however, stood at $6.2 billion for the first 9 months of this year, a decline of around 5 percent as compared to last year. Assuming that imports will be a little over $9 billion by the end of the year, it seems possible for Turkey to close out the year with a foreign trade deficit of around $3.5 billion.

This shrinkage of the foreign trade deficit notwithstanding, the picture is not at all bright in worker remittances and net tourism income. Worker remittances declined 14 percent in the first 9 months compared to last year and net tourism income, 22 percent.

--Inflation-Unemployment

Doubless the important thing for the citizen is price increases, and the retail price increases reflected in the cost-of-living indexes, the Ankara and Istanbul cost-of-living indexes, are higher, not lower, than last year in the first 10 months of this year. This fact, combined with the effect of the recent price hikes, makes it pretty difficult to tell the citizen that inflation will be lower in 1982 than it was in 1981.

Unemployment indicators, which in our country can be figured only by the surplus workforce method, show that the unemployment rate and the number of unemployed continued to increase in 1982.

--Monetary Indicators

The dimensions of the slowdown observed in the monetary sector in deposit growth are, in fact, important. This trend became even more pronounced in the aftermath of the Kastelli incident and shows up clearly in the figures for the first 10 months of the year. On the other hand, expansion of money issues and supply is at the same level as last year. If we recall, however, that it was just in the past 4-5 months that money issues were stepped up, it becomes necessary to take into overall account the negative effect this increase may have on prices in the period ahead.

Turkish Economy, 25 Indicators

Indicator	1981	1982
National Income--Production (%)		
GNP Growth Rate	4.3	4.4
GDP Growth Rate	4.4	4.7
Agricultural Growth Rate	0.4	6.5
Industrial Growth Rate	9.1	5.2
Construction Growth Rate	0.4	0.5
Per Capita Income		
GNP (current prices)	144,521 TL*	186,924 TL
GNP (1968 prices	4,734 TL	4,842 TL
GNP ($)	$ 1,311	$ 1,180
Exports-Imports-Foreign Exchange (January-September) ($ million)		
Exports	3,009	3,817
Imports	6,514	6.201
Foreign Trade Deficit	3,505	2,384
Worker Remittances	1,909	1,645
Net Tourism Foreign Exchange	206	160
Inflation-Prices (January-October) (%)		
Ankara Cost-of-Living Index	22.0	25.4
Istanbul Cost-of-Living Index	24.5	25.0
Wholesale Prices	21.1	16.9

*Turkish Liras

the 6.1-percent estimate made at the beginning of the year--and 5.4 percent in the manufacturing industry. This is quite a drop from 1981, but these figures are still indicators of considerable growth.

How, then, are we to explain this paradox? Are we to say that spokesmen for various segments of the private sector are keeping up the traditional "poor-mouthing" in an attempt to make their situation look bad when, in fact, it is not so bad? Or are we to reach the conclusion that the situation is indeed alarming, but the indicators do not reflect it but skew the facts?

According to Dr Oztin Akguc, an expert closely associated with banking and industry, it is not easy to trust national income estimates made in Turkey. The lack of spending and revenue factors in national income computations makes it impossible to check the figures. Indicating that the estimated growth rates in the industrial sector this year and last year and in the agricultural sector this year do not readily coincide with the apparent facts, Oztin Akguc says that it is very hard to find the growth in the construction sector in particular. "I cannot understand how there is growth in the national income estimate when all the physical indicators show regression in this sector," he said.

Gungor Uras, a former planner, who is also dubious about the national income figures, says, "The 4.5 percent growth rate predicted for 1982 is not realistic." A former State Planning Organization [SPO] undersecretary, Uras noted that the SPO had revised its 4.6 percent growth rate estimate at the beginning of 1982 downward to 3.8 percent on the basis of July data from the SIS, whereupon the SPO and Ministry of Finance stepped in and changed the definition of "external revenues" in the balance of payments accounts, ending with a revised growth rate figure of 4.4 percent in November. Uras recalled that, for last year's growth rate computation, the SIS had estimated a wheat crop of 17 million tons, the SPO later reduced this figure to 15 million tons and the American estimators, meanwhile, set the wheat crop at 13.5 million tons. "The important thing is that increases derive from production, not from juggling national income figures and revising definitions," Uras said, stressing that this kind of manipulation would harm Turkish respect abroad.

Reliable experts at the SIS admit that there may be mistakes in the price deflators used in making national income estimates. On the other hand, the same experts say that national income estimates at a minimum are an expression of general trends in the sectors.

Which Sector More Fortunate

In that case, to resolve the paradox posed at the beginning of the article, it is necessary to look a little closer at the sectors involved, to touch on subsectors and even individual firms. Nurullah Gezgin, chairman of the board of directors of the Istanbul Chamber of Industry [ICI], says it is necessary in this regard to divide private sector industry into two major groups. According to Gezgin, the sector that had the chance to export and used that opportunity well continued to prosper in 1982, operating more realistically and efficiently. This sector's only drawback was problems encountered on export

markets and negative developments in export incentives, primarily in export credits. Those really hurt, according to Gezgin, were the firms unable to export. He said this sector was beset by serious problems, especially after Turgut Ozal resigned, expecting interest rates to fall, the domestic market to revive and inflation to get out of control. "Those among them not in a monopoly or oligopoly status may, in fact, be in a difficult situation," he said.

Results of the ICI quarterly survey of industrial capacity utilization also confirm this judgment. While "insufficient demand" takes first place by a wide margin among factors restricting capacity utilization, large firms and those able to turn to exports are seen to have higher capacity utilization then small ones.

One reason for the last 2 years' growth in industrial production is, without doubt, the opportunities afforded by rapidly growing sales abroad of industrial products.

A second factor, at least as important as this one, is the expanded production allowed, especially after 12 September, by "non-economy" factors. Production has, of course, been positively affected by the resumption of production by public and private sector facilities that had been forced to stop for various reasons, the absence of worker-employer problems and removal of impediments to importation.

The fact is, it would be well-nigh impossible for all these factors to give a repeat performance. It is not, therefore, overly pessimistic to expect the growth rate enjoyed by industry in 1981 to drop this year and to continue to decline next year as well, with more intensive financing problems coming into play. In fact, 28 percent of the firms responding to the ICI survey in the first quarter indicated that they did not think production would increase and this percentage rose to 42 percent in the third quarter. There was some regression, though slight, in industrial capacity utilization in the third quarter.

Professor Zeyyat Hatipoglu is one of those staunch pessimists as regards the future of production and real growth in Turkey. According to Hatipoglu, it is impossible to sustain a growth rate of around 4 percent in the period ahead. "Wages would have to be reduced by 30 percent even to achieve growth rates of 1.5 percent-2 percent in the next decade. It is impossible to sustain 4-percent and 5-percent growth rates without risking a period of deprivation," says Zeyyat Hatipoglu.

Growth Rates in Major Areas of Economic Activity
(% at 1968 prices)

Area of Activity	1979	1980	1981	1982
Agriculture	2.8	1.7	0.4	6.5
Industry	-5.6	-5.5	9.2	5.2
Services	0.2	0.2	4.2	3.9
GDP	-0.6	-0.1	4.4	4.7
GNP	-0.4	-1.1	4.3	4.4

Source: SIS

Industrial Outlook

Istanbul CUMHURIYET in Turkish 3 Dec 82 p 6

[Text] According to the ICI capacity utilization survey, first place among the causes limiting industrial capacity utilization, that is, production, is held by "insufficient domestic demand" followed by "financing difficulties." Actually, these causes reflect two sides of one coin, and it is difficult to consider them completely separately.

At the bottom of the problem lies the way in which our industry was set up and the habits it had got into prior to 1980. Accustomed to working for a ready home market in an inflationary climate of cheap money and cheap foreign exchange, our industry became "a fish out of water" when all these conditions changed. As domestic demand shrunk, the turn-over rate of sales and capital plummeted, stocks piled up and the cost of moving these stocks at least doubled. Moreover, higher prices for domestic and foreign inputs increased the need for operating capital and all of these causes began to put a bind on industrial firms, most of which were formed on inadequate net assets to start with.

In that case, their only solution was to go even deeper in debt. But the price of credit, that is, interest rates on credit, already "off the chart" for many industrialists, began to rise steeply at the same time. Industrialist Jak Kamhi assesses the phenomenon in this way:

Cheap Resources

"High interest on credit is a disaster for industry. Nations wishing to develop industrially have always provided industry with resources at low interest. This thing called the 'Japanese miracle' was accomplished through

"self-financing and the transfer of resources to industry at interest rates no higher than 6 percent. Despite high interest rates in Europe in countries like France and Sweden, resources are provided at a cost not exceeding 6 percent to develop and encourage industry. High interest, in my opinion, is very risky for all sectors."

Economy Will Falter

Halit Narin is one of those industrialists who complain most about high interest and the operation of the banking system. Narin says, "If these interest rates don't come down, the economy will," and continues: "It would be wrong to discuss 1983 if this cannot be understood. Turkey got into the interest race with slogans. The economy cannot be run by slogans. It is a realistic approach to pay savings holders' an interest rate parallel to inflation, but in our practice of this, deposits that net the saver 37.5 percent interest enter the economy at a cost of 88 percent to industry. This absolutely must be prevented. That is, if inflation is 25 percent in 1983, the saver should get 27 percent-28 percent net interest, but the cost of credit to the industrialist should not exceed 35 percent."

Price of Money

Economist and former planner Gungor Uras, discussing the relationship between the determination of interest rates and deposit-credit interest in our country, says: "Price reflects the degree of scarcity of a commodity. Interest, as the price of money, then reflects the scarcity of money. In other countries, interest is the simple price of money. Here, however, even though the price of each commodity is determined as a pure price, interest does not reflect the true price of money owing to the burdens upon it. Deposit interest is subject to 25 percent withholding and the true value of 50 percent interest for the money owner is 37.5 percent. When one speaks of 40 percent credit interest, the user pays 75 percent interest owing to tax, stamp and fund burdens on credit interest. So unless this system is purged of the burdens that determine the price, it can achieve no progress the way deposit and credit interest interact."

Both Halit Narin and Gungor Uras point to one debilitating aspect of the interest problem in our country. The banks have high operating costs owing to their own structures and the state places heavy burdens on the system, thus the banks pass on the money for which they pay a net interest right at the inflation rate to the industrialist at a "real interest rate" much higher than the inflation rate. The industrialist, forced to take out loans at interest rates exceeding 70 percent when the inflation rate hovers around 30 percent, naturally finds it difficult to carry this burden. It creates serious problems when firms whose net capital-foreign capital balance is already out of kilter have to tolerate interest rates at twice the inflation rate in a climate of shrinking demand. When the industrialist reaches the point where he can no longer conduct his business or keep his production going because of these problems, he is naturally going to start yelling.

We Are Used to High Interest

At this point, however, it is necessary to lend an ear to the comments of ICI Board Chairman Nurullah Gezgin, who says the industrialist is gradually adjusting to the shocks he has experienced as regards interest rates. Nurullah Gezgin, by geographical requirement, keeps a finger on the pulse of Istanbul industry and industrialists and has this to say in assessing the topic:

"The industrial sector is used to working with high interest rates. Everyone has adjusted to the high-cost-of-money policy. High interest rates will not overly trouble the industrial sector from now on. Interest rates can not go down in our country anyway, because resources are not sufficient. As long as resources are inadequate, the state can set whatever interest rates it wishes, but it cannot make money cheap and cannot get money. A middleman will come forward who will pay even higher interest for that money and attract money to himself. As long as supply and demand are out of balance in money, that is, in resources, high interest rates will continue. In my opinion, the large firms have the worse financing problem. But there is an interesting point here. Everyone has been talking about the great financing squeeze for 3 years, but no one has gone under yet. All of the prominent firms are still around. Something is going on her, but I can't figure out what."

Doubtless there is a great deal of truth in what Nurullah Gezgin says. But, obviously, the industrialists unable, or finding it difficult, to make the adjustment Gezgin speaks of will continue to press for lower interest rates. This makes it necessary to discuss the status of the banks and whether lower interest rates are possible.

Banks' Role In Interest Rates

Istanbul CUMHURIYET in Turkish 4 Dec 82 p 6

[Text] In a personal interview with Turgut Ozal in May, when we asked about the relationship between financially-troubled firms and the banks, he said:

"We have a rather flexible banking system. That is, a man does not suddenly go bankrupt as happens in foreign banks. The banks say, 'Come to us,' they help out. It is a more humane approach. Of course, as to how far the banks have gone overboard in this, how vulnerable they have become, that is something I cannot say."

Perhaps in these comments of Ozal's there is something of what Nurullah Gezgin was referring to when he replied that "everyone has been talking about the great financing squeeze for 3 years, but no one has gone under yet. Something is going on here but I can't figure out what."

The banks in Turkey have a special relationship with their credit customers on the one hand and offer maximum assistance on the other to those clients endangered by their customary modes of operation, giving them the opportunity to postpone crisis. In some cases the banks have to do this. They are afraid

that if a large company failed and they did nothing about it, it would have a negative effect on the market and be followed by further failures. This is why they opt to keep a company alive, even working together when necessary as seen in the example of the Kilimcilik Group.

How Far

The question of "how far this practice may go," however, is gradually causing more concern to banks, whose resources depend on credits increasingly unrepaid and which are having serious difficulties even in collecting periodic interest.

This is not the banks' only problem. Other important matters of concern to the banks are the declining growth rate in deposits on one hand, while the high interest rates paid on them make it practically impossible for any banks to earn a profit. In other words, high interest rates have become a double jeopardy for the banking system. Interest rates so high that credit customers are unable to repay the credit they take out account for an enormous share of the banks' debits, putting a strain on their profitable operations. It is estimated that the banks will have to pay in excess of 500 billion liras in interest in 1982 alone.

Thus it is necessary to add the banks alongside the industrial firms on the list of those pressing for lower interest rates.

If Interest Does Not Come Down

According to Gungor Uras, who chaired the Select Committee for Banking for the Fifth Development Plan, it is particularly important to the banking system at the moment for interest rates to come down. "If deposit interest is not lowered, the banks are going to have a very serious shock," Uras says, continuing: "Owing to the legal burdens on deposits today, the depositor gets a maximum of 37.5 percent interest on time deposits, but the overall cost of deposits to the banks is 50 percent-55 percent even though they pay no interest on commercial deposits and only 5 percent on demand deposits. In that case, the banks is obliged to get at least a 50-percent to 55-percent return on its money. However, when the cost of stamps, taxes, funds and overhead are added to the bank's net income, the customer is paying around 70 percent for credit today. Also, if you add the cost of bad credits, the cost to the banks of their resources goes up even more. For all these reasons, lower deposit interest would not bring down credit interest in the short term, but it would at least give the banks a measure of relief."

First Sacrifice From State

Under these circumstances, it would be necessary for the state to make the first sacrifice to get interest rates down and forego some of the taxes on interest and the banking system. One question comes immediately to mind at this point, however: Should the attempt be made to reduce interest rates without demanding serious reform of the banks, which everyone admits have an expensive system of operations, raise the cost of money to business and industry

through deposit blockage and similar methods and give priority in credit allocation to the interests of holding companies with which they are affiliated?

Banking Agreement

Ali Kocman, president of TUSIAD [Turkish Industrialists' and Businessmen's Association], says, "It would not be right to put the lowering or raising of interest rates on the agenda before reform of the banking system. These two topics must be considered jointly." He then goes on to say: "I believe, if the taxes on deposit interest alone were reduced from 25 percent to 20 percent, that the banks would put the matter of reducing interest rates on the agenda themselves--bearing in mind declining credit demand--without the need for government intervention in interest rates. The banks could be expected to devise a new gentlemen's agreement and announce a drop in interest rates. Putting the debilitating aspects of the banking system under Central Bank control under a clear, objective, universally-applicable discipline would certainly produce a positive development in the system and in interest rates."

Alternative Resource

A necessary condition for reducing interest rates, as Kocman mentioned, is reduction of demand for funds, that is, credit, from the banks. And this would be possible only if alternative sources of funds appeared, if the capital market were effectively able to supply companies with funds. Nuh Kusculu, board chairman of the Istanbul Chamber of Commerce [ICC], recalls some inconclusive preparations in this regard and says, "In order to bring interest limits down by way of easing the financing squeeze and reducing cred credit demand, it would be appropriate to revise taxes so as to make the stock market more attractive and move for a devaluation as soon as possible."

One of the most sensitive points in reducing interest is doubtless the relationship between net deposit interest and the inflation rate. If net deposit interest is below inflation, there would be more than a few concerned about the further slowing of deposit growth, already slowed after the Kastelli incident, and a shift of savings from deposits to gold and consumption. In that case, the question of what the inflation rate will be is one that will significantly affect the interest policy to be pursued.

Inflation Factor In Economy

Istanbul CUMHURIYET in Turkish 5 Dec 82 p 6

[Text] Inflation has become the key indicator of the Turkish economy in recent years. Bringing inflation under control was one of the two major goals of the economic stabilization program which we have been trying to implement since 24 January 1980. This basic goal has also played a major role in identifying other elements of the economic policy. Inflation estimates were the basis for setting wage and civil service salary increases and there has been an effort to keep deposit interest rates higher than inflation. The

inflation rate has also been a principal factor influencing the rate of depreciation of the lira. The anti-inflation policy has a direct bearing on whether the economy will grow rapidly or slowly, whether it will be inwardly or outwardly oriented, in short, on every component of the economic strategy to be followed.

The program "to stay the beast" of inflation pursued in Turkey since 24 January looks at things almost entirely from the standpoint of controlling demand, and the goal has been to bring inflation in check by restricting monetary expansion and raising interest rates. And it is true that this policy has achieved a measure of success.

According to the Wholesale Price Index compiled by the Ministry of Commerce, the average rise of 107.2 percent in 1980 was brought down to 36.8 percent in 1981. And increases in the cost-of-living indexes dropped from 101.4 percent in Ankara to 33.9 percent and from 94.3 percent in Istanbul to 37.6 percent. Wholesale prices were rising in the first half of 1982 at a tempo around 25 percent per year owing especially to the slowdown in food prices and the cost-of-living indexes reported annual increase rates of just under 30 percent for Ankara and just over 30 percent for Istanbul.

Latest Status

In recent months, wholesale prices have shown a downward trend toward an annual rate of 20 percent, owing again to lower food prices, giving a 16.9 percent increase in the first 10 months of 1982. One cannot easily conclude, however, that inflation will continue to decline. The inflation figures used throughout the Western world are consumer prices or the cost-of-living indexes which directly affect the consumer, that is, the public. The Ankara and Istanbul cost-of-living indexes compiled by the Ministry of Commerce were going up, not down, in the first 10 months of 1982 as compared to the same period of 1981. Furthermore, it seems inevitable that the broad price hikes in November would have a negative effect on the indicators for the final two months. As a result, it looks as though the progress achieved since 1980 in controlling inflation is showing signs of a halt and it will be very difficult to get inflation down to the targeted 20 percent range in 1983.

Cost factors probably now head the list of complications making it difficult to bring inflation down by controlling demand. Depreciation of the Turkish lira against the dollar and the reflection on prices of the rapid increases in prices of imported inputs are complicating the control of inflation and one must also add the effects on unit costs of increasing interest burdens and low capacity utilization.

Professor Gulten Kazgan, stressing that price increases occurring on international markets ran up the price of our imported goods by 7.5 percent in the past year, says also that depreciation of the lira against the dollar and other hard currencies has affected the prices of almost all goods by means of shifting demand. When in this process demand shifts from goods whose prices have risen because of depreciation of the lira to goods thought at

first glance to have nothing to do with the dollar or the price of oil, it has the effect of raising the price of these goods also.

Professor Kazgan includes in the factors raising inflation by way of cost the reflection of idle industrial capacity on unit costs, price rigidity resulting from the increasing monopolization that occurs during times of economic recession and high interest rates.

Depreciation of Lira

Gungor Uras is another economist, who contends that depreciation of the lira against the dollar affects the prices of almost all commodities. Uras says, "It is a spiral. As the price of the dollar continues to go up, the prices of other things go up, too, not just oil, but wheat, eggs, meat and milk. As these prices rise, the price of the dollar rises again. It goes on like this. According to this system we have adopted, you take the price of the dollar instead of looking at other things in computing inflation, and where the dollar goes, inflation goes."

Since the value of the dollar against the Turkish lira has been 40 percent since the first of the year, 1982 inflation will also be 40 percent according to Uras' computation. Certain other economists as well as leading industrialists and businessmen offer different estimates on this.

Professor Demir Demirgil says: "Inflation of 30 percent-31 percent is expected in 1982, but it is going to be around 35 percent because of the recent price hikes. Because inflation is gaining this momentum, it will take every measure possible to hold inflation at around 26 percent in 1983." Professor Zeyyat Hatipoglu, like Professor Demir a supporter of the 24 January decisions, puts it this way: "It is hard to estimate inflation this year because of the recent price hikes. But in my opinion the 1983 inflation rate will be higher than in 1982. Businessmen are already calling for it and some of them have said so openly."

What Do Businessmen Say

The inflation estimates of leading spokesmen of the private sector are not, in fact, overly optimistic. ICI Board Chairman Nurullah Gezgin says, "The 1982 inflation rate will be over 30 percent and to expect inflation in the 20-percent range in 1983 as just wishful thinking," while TUSIAD President Ali Kocman estimates inflation at 30 percent-35 percent for this year and between 35 and 38 percent for next year. ICC Board Chairman Kuzculu, meanwhile, is little more optimistic. Stating that the price indexes compiled by his chamber have again shown a rising trend in recent months, Kusculu says, "Increases in the indexes stem in particular from expansion of the Central Bank money issues and rising costs in the latter half of the year. For this reason, one may say that inflation will overshoot the 25-percent estimate for 1982 a little."

As will be seen from these estimates, there seems to be no one expecting inflation to be under 30 percent this year. As for the 20-percent goal set

for next year, nobody thinks that is very realistic. It looks as though the threat of cost inflation that industrialist Jak Kamhi describes as "a very great danger" and the monetary expansion that Prof Gulten Kazgan said "will show up in prices in 6 or 7 months" will seriously complicate inflation targets in the period ahead.

Export Outlook

Istanbul CUMHURIYET in Turkish 6 Dec 82 p 6

[Text] With tighter money alongside changing economic policy, the 61.6-percent growth in foreign sales in 1981 began to stutter after the first half of this year. While the export growth target of around 30 percent planned for this year held in the first half of the year, July and August, the traditional start of our export season when sales abroad are expected to rise sharply, showed on the contrary a pronounced decline. The export growth rate which went to 21.6 percent in August stood at 14.1 percent in September and 10.9 percent in October. Data for the last 2 months add strength to the prediction that the export target of around $6 billion for this year cannot be met.

What caused the pronounced backslide in exports in recent months after last year's "dazzling start"? One wonders if efforts to reduce inventories owing to depressed domestic demand since early 1980 might not have played an important role in last year's boom. Or was it that cheap export credits at the 30-percent level as opposed to domestic credit costs climbing into the 80-percent range pushed many businessmen blindly into this area and those who could not make it began falling by the wayside? Or were our exporters keeping this business going only through excessive incentives? Did it lose its former attraction when incentives were reduced and the dollar-value of the lira slowed its decline? Did even the slightest ripple of recovery on the domestic market have a restricting effect on exports?

Causes of Stutter

The most important cause of the recent stutter according to most of our exporters who surged ahead during the export boom was the months of backup in the Central Bank's export rediscount rates. That is, the culprit is the state which started pulling out after first encouraging our businessmen and pushing them into this area. Another important reason offered for the decline in exports is the fierce competition among our exporters themselves for foreign markets on which to sell their goods, and this hurt not only our exporters, but our country as well, because our goods were selling for a song on the foreign markets and bringing less foreign exchange into the country. Moreover, negative attitudes observed on foreign markets, primarily the EEC, also had a negative effect on exports.

What Do Exporters Say

According to Ibrahim Yazici, general director of Ram Foreign Trade, an affiliate of the Koc Conglomerate which is our country's biggest export marketing

business, the Central Bank failed to fulfill its contracts as regards sales abroad. And, owing to this attitude by the state, exporters lost their profile on foreign markets, were put in a difficult spot and avoided making new contracts. "The state keeps saying, 'It's all mine,' and this won't work," says Yazici, stressing the need for continuity in incentives if exports are to grow as desired.

Emin Karagul, general director of Cukurova Foreign Trade, takes a somewhat different approach: "Uncertainty in incentives and credit restrictions make it difficult for us to enter new contracts for 1983. But, if you ask me, the administration wants to slow the export growth rate anyway. The export target of $6.8 billion for 1983 is an indication of this."

Exports Successful

Economist Demir Demirgil does not share that view. "The export policy is successful," says Professor Demirgil, adding that, in the first place, one should not expect a repetition either of the figures or the rate of the $1.6 billion in export growth of 1981, that exports may grow 27 percent this year, which would be normal, and that a projection of 20-percent growth would be a realistic estimate for 1983 if there is no radical change in export policy such as a return to the pre-24 January status.

ICC President Nuh Kusculu's estimate of the 1982 export growth rate is more pessimistic than Professor Demirgil's. Kusculu says, "I think this year's export target which was planned as $5.85 billion will fall short by as much as $100 million-$200 million because of the slowdown in recent months and this year's export growth rate will be 21.3 percent."

TUSIAD President Ali Kocman's estimate is close to Kusculu's: "I expect this year's exports to be around $5.5 billion or $5.6 billion. But I had already made this estimate at the beginning of 1982. Export growth next year may be at the 15 percent-18 percent level."

We Could Have Exceeded Goal

While Ali Kocman says, "I had already estimated this year's exports at around $5.5 billion," there are others who contend that we had an export potential this year in excess of the target of around $6 billion, but that uncertainties in incentives and the hold-up in rediscount rates prevented the fulfillment of this potential. According to Yasar Unal, president of the Turkish Union of Fresh Fruit and Vegetable Exporters, "This year's sales abroad would have exceeded $6 billion if there had been no hitches in credit and incentives. If the problems are not ironed out, the figures may regress to alarming proportions after the first of the year." ICC President Kusculu also shares the view that we had the potential to exceed this year's target in sales abroad.

Why the Credit Backup

It attracts notice that the point at which all export-related circles converge is the credit hold-up and incentive uncertainties. In that case, it is

necessary to find an answer to the question of why there was a hold-up in the Central Bank export rediscounts.

According to SPO and Central Bank authorities, it is impossible for the state to put money into incentives for exports that are growing at this rate. SPO Undersecretary Yildirim Akturk says, "It is impossible for us to match the growing export figures with incentives at the same level. We do not have extra resources to plow into this." He asserts that what the exporters are reacting to is their decision to implement "net foreign exchange input in tax rebates" in 1983. Central Bank Vice President Ibrahim Kurt agrees, saying, "While tax rebates of 420 million liras were paid in 1981, this figure has climbed to 52 billion liras this year. We cannot keep this up."

Where Are Scarce Resources Spent

Nevertheless, most exporters who have been waiting in line at the Central Bank for months for the promised rediscounts have a different interpretation and they say that the places in which Central Bank resources were used changed drastically after the Kastelli incident, that by using this aid for banks, brokers and certain firms requesting aid from the state there was no money left for the exporters in the Central Bank's already scarce resources. "The resources allocated to us which would bring the country foreign exchange have been wasted in a way," they say.

Former minister Professor Kenan Bulutoglu, assessing the causes of the export slowdown, says that, in addition to the reflection on Turkey of the world economic recession and shrinking markets and the erosion of financing advantages for exporters, "the limits envisaged by the IMF put a strain on the Central Bank and this situation also reflected on export financing."

1983 Expectations

It appears from the comments by exporters, state authorities and experts all that export incentives are declining and that this trend will continue. Since incentives and credits have specific limits, it is important that credit priorities be set carefully and not lead to such criticisms in the distribution of credit as: "Incentives are being held for a few conglomerates while those who have spent their lives in exports are being pushed aside," or "Marketing companies are getting the lion's share of these credits."

As far as our exporters are concerned, it looks as though 1983 will be a time in which the perception of exportation as "a serious business" will come into its own and the ones that survive will be the ones who look at it this way, who can get organized in the countries where they sell, who are competitive in price and quality on foreign markets and whose products have a high added value, in short, a year in which exports will have to be streamlined. As for expecting fresh miracles from the export figures in the streamlining process, that does not seem a very realistic approach. In the meantime, it is necessary to remember once again that it is not easy to have large export growth rates in a world where protectionism is gradually accelerating and trade volume is shrinking.

3-Year Export Comparison by Month
($ million)

Month	1980	1981	1982	1980-1981 Growth (%)	1981-1982 Growth (%)
January	236	411	446	74.2	8.5
February	244	307	410	25.2	33.6
March	234	304	447	29.9	47.0
April	219	316	402	44.3	27.2
May	197	294	415	49.2	41.4
June	169	325	420	92.3	29.2
July	167	316	413	89.2	30.7
August	180	336	408	86.6	21.6
September	220	400	456	81.8	14.1
October	261	487	540	86.6	10.9
November	327	552	?	68.8	?
December	457	655	?	43.3	?
Total	2,910	4,702	?	61.6	?

Private Sector, Financing Squeeze

Istanbul CUMHURIYET in Turkish 7 Dec 82 p 6

[Text] Before making a general evaluation taking into account such problems as investments, unemployment, wages, public spending and the status of the state economic enterprises, which we have not, up to this point, had a chance to discuss much in this series of articles, we would like to summarize the expectations and proposals for 1983 to certain leading spokesmen of the private sector. We would hope in this way to have a clearer picture in our assessment of where the private sector stands and of its desires on the eve of 1983.

Financing Problem

Heading the problems occupying the minds of private sector spokesmen and representatives as 1983 approaches is without doubt the financing problem. Mehmet Yazar, chairman of the Turkish Union of Chambers Board of Directors, lists his expectations and proposals in this regard as follows:

"High interest rates have a broad effect on firms whose net resources-foreign resources structures are out of balance and which have little chance of opening to exportation such as industries which produce investment goods. It is necessary for these firms' net assets to be reinforced through such practices as increasing the efficiency of the banking system, considering ways to lift charges on interest, developing the capital market and stepped-up depreciation. In addition, to solve the financing problem, the devaluation law must be passed, deposit supplemental reserves must be gradually reduced, the statutes on protecting Turkish currency should be amended to allow banks to obtain resources on the international financing markets and the state must

"pay its debts to contractors and growers on time. Moreover, incentives for foreign capital, expanding the opportunities for firms to obtain private loans and resolving the exchange-rate difference problem are all of great importance."

There seem to be no private sector industrialists who do not share these ideas of Mehmet Yazar's. Their only concern is that measures along the lines of these proposals will be delayed. ICI Board Chairman Nurullah Gezgin says that sending the devaluation bill to the Consultative Assembly may mean that this law cannot be passed before the first of the year and that delays in this and in revision of the statement of worth procedure are creating concern.

Reviving Domestic Market

Another topic closely related to the financing problem is insufficient demand. Insufficient domestic demand, which has become the number-one problem in particular for industrialists finding export orientation difficult, takes first place among the factors limiting capacity utilization and production. Stressing the need for both domestic and foreign demand to expand if there is to be cheap and plentiful production, Mehmet Yazar says:

"To have cheap and plentiful production, it is necessary that firms make full use of their production capacities, to have health expansion of domestic and foreign demand, to raise productivity in both the public and private sectors, to reduce the infrastructure bottleneck to a minimum, to implement a consistent wage policy and to give priority to a flexible exchange rate policy and export incentives to stay on top of the foreign exchange bottleneck."

Industrialist Jak Kamhi is one who earnestly places the emphasis on domestic market revival. Kamhi says, "Domestic demand must be revived. Since our particular complaint at present is cost inflation, the primary measure to combat this is revival of demand. Revitalization is necessary at a level not to spur demand inflation. Revitalization of the construction sector would have side effects on all other sectors. Infrastructure investments by the state would also bring vitality to the marketplace."

Turkish Confed of Employer Unions President Halit Narin also complains about interest rates "at a level to completely wipe out demand on the domestic market."

"The factors which do and do not stimulate inflation in Turkey must be positively identified and regulated. The realistic approach is to activate the cost-reducing function of raising production," he says.

Inflation and Monopolization

Nurallah Gezgin and ICC Board Chairman Nuh Kusculu, while favoring continuation of anti-inflationary policy, also talk about the monopolization phenomenon on certain markets. "It is more important than making an inflation

"estimate for 1983 to stress the need for inflation to come down to 20 percent," says Kusculu, continuing:

"However, this is complicated by the lack of funds for investments that would increase supply in our developing country and by protective measures to protect the domestic market against the foreign market. It is seen that one firm or a group of firms dominate production of certain items and, as a result, the quantity, price and quality of these goods are set by those firms. It is considered necessary in order to bring inflation down and head off existing financing troubles to make certain measures supplementary to the 24 January decisions to fill in the blanks."

Nurullah Gezgin says that proceeding with imports in the areas where monopolization is concentrated might be an appropriate measure as to ensuring competition and price regulation.

Nurullah Gezgin sums up his views on export incentives in the comment, "We are in favor of reasonable, lasting incentives." Gezgin says that he does not advocate transition to the "net foreign exchange input in tax rebates" to be implemented in 1983, but favors a more flexible tax rebate classified by item.

Nuh Kusculu contends that "bearing exportation in mind as a sound resource in closing our foreign deficit, it is considered imperative that in addition to the increasing use of export credits in 1983 the tax rebate system should continue without any restriction at all for a while yet. Export incentives will help the firms that want to look abroad but have a liquidity shortage owing to depressed demand on the domestic market."

Mehmet Yazar's opinion on this runs parallel to Kusculu's. The best way to relieve the financing squeeze, both on a company basis and for the economy in general, is to raise exports. For this reason, export credits must have unimpeded cooperation and continuity, the credit and importation scope must be expanded and firms must be allowed to take more advantage of prefinancing opportunities in exports," says Yazar.

What About Investments

Industry Minister Mehmet Turgut summed up the situation in a communique presented to a seminar last week in the comment, "Increasing investment is our industry's major problem. It is impossible to tell anyone to increase their investments under the present circumstances. New investment incentives are needed at this point. The efforts necessary to provide this are in the final stage." Nurullah Gezgin's assessment, meanwhile, is this:

"The desire to invest must be reawakened in industry. Industry has made no investments since 1974 or 1975. Since resources are a problem, expansion in certain sectors and investments that eliminate bottlenecks must be encouraged. The importation of used machinery should be permitted. There is machinery in perfect working order available in Europe at 70 percent to 75 percent less than when new. There is no reason why we should not be able to import it."

Gold Rush, Summation

Istanbul CUMHURIYET in Turkish 8 Dec 82 p 6

[Text] In seeking an answer to [the title] question [Where Is the Turkish Economy Going?], we reviewed the major economic indicators based on official data. We then tried to put into the perspective of the 24 January philosophy assessments of economic progress by certain experts and leading spokesmen of the private sector who have opposed or favored that philosophy from the outset. While we were doing this, a run on gold in Turkey reached proportions not seen for a long time and gold prices climbed to figures that no one would have believed a few months ago.

This abnormal surge in gold is at least as important in the course of the Turkish economy as other indicators and the assessments of experts or businessmen. What was it that brought a surge of these dimensions on the gold market that had not been very active since early 1981, that produced a jump of up to 30 percent within 1 month in gold prices in Turkey while there was no important or pronounced activity in world gold prices?

When Gold Spurts...

Sudden jumps in gold prices in Turkey, as elsewhere in the world, are clearly the forerunner of economic imbalance or, at least, expected imbalance. In fact, there was evidence in the latter half of 1982 that certain balances that had been painstakingly protected since 12 September in particular were beginning to go awry. It became especially difficult to hold these balances after the Kastelli incident. As the brokerage mystique came to an end, the repercussions created by certain banks hurt by this incident slowed the flow of deposits to the banks and, the Central Bank, mobilized to keep the tottering banks alive, was hard put to spare resources for exports. Sudden expansions in the volume of money issues and price hikes reflecting depreciation of the lira stimulated inflationary expectations. IN a climate in which expectations of this kind are intensifying despite daily exchange rate adjustments, it became hard to attract worker remittances home, and the difference between the official and black market exchange rates of the lira began to widen seriously in recent months.

On the Production Front

Developments on the production front were not very bright either. It was hard to say what kind of year would follow the "good year" in agriculture helped along by favorable weather. Industrial production was seeing its growth rate fall and while firms unable to get on top of their financial problems were coming one after another to positions requiring "salvaging," there seemed to be no intention among non-exporting firms in private sector industry in particular to raise capacity utilization, much less to make the investment to create new capacity. Complaints also increased about delays in measures drafted to resolve the problems of the financing sector and surmount the resource shortage.

Bills Being Paid

Doubtless, it is no coincidence that this picture should emerge in mid-1982, 2.5 years after the 24 January decisions. It had been possible to achieve certain goals of the "stabilization program, thanks to more consistent implementation of the 24 January decisions after 12 September, inflation had been reined in, a significant thrust had been achieved in exports despite world recession and Turkey had become a country that made its foreign payments on time. Non-economic factors had also contributed to the increases in industrial production. Nevertheless, the "structural change" intended in both industry and the financial sector had not come about and the "cheap and plentiful production" which was a prerequisite of long-term success had failed to materialize. Finally, it was no longer possible to put off certain problems any longer and the Kastelli incident made it look as if the time had come to pay the bill for the partial successes of those 2 years.

This was probably what underlay the complaints coming from the private sector. A sizable segment of the private sector that had applauded the 24 January decisions had been unable to make the push anticipated by the decisions, had been unable to adjust and then began to complain when it came to paying the bill for this lack of adjustment.

The End or To Be Continued?

At this point, the 24 January philosophy had arrived at an extremely important cross-roads. One option was to forge stoically ahead in the philosophy, irnoring the fact that firms unable to adjust would pay the price for it and shoring up the old program with additional measures such as deregulation of imports in order to accomplish the outward-orientation of the economy structurally. This option, which places priority on preserving internal and external balances, leaves no room for rapid revitalization of the domestic market or artificial measures to keep firms or banks afloat.

The other option was to revise the program, taking the tales of woe into account, and aim for getting through the crisis and preserving the balances without too many casualties. At a time when Turkey was on the verge of restoring democracy, one could not be overly surprised if this second option was the one chosen. But would it be possible, one wonders, to preserve the economic balances and squeeze through the tight spots with compromises of this kind?

Or was there a need for a third approach that would attend first of all to the problem of raising production and deal with structural change in the economy in a different way, an approach that would place more emphasis on the element of planning? This, at any rate, had to be the primary question requiring the attention of everyone concerned with the economy as 1983 approached.

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